

Gleim Exam Questions and Explanations
Updates to Auditing & Systems
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NOTE: Sections with changes are indicated by a vertical bar in the left margin. Text that should be deleted is displayed with a line through it. New text is shown with blue underlined font.

Study Unit 16 – Reports -- Other Modifications

Page 395, Subunit 16.3, Question 16.3.1.: This update clarifies the requirements for an auditor to report substantial doubt about an entity's ability to continue as a going concern.

16.3.1. Green, CPA, is auditing JKL Co., a nonissuer. Green concludes that there is substantial doubt about JKL Co.'s ability to continue as a going concern. If JKL's financial statements adequately disclose its financial difficulties, Green's auditor's report should

	Include a Section Following the Opinion <u>Separate Section Describing the Issue</u>	Specifically Use the Words "Going Concern"	Specifically Use the Words "Substantial Doubt"
A.	Yes	Yes	Yes
B.	Yes	Yes	No
C.	Yes	No	Yes
D.	No	Yes	Yes

Answer (A) is correct. (CPA, adapted)

REQUIRED: The effect of a substantial doubt about the going-concern assumption.

DISCUSSION: An evaluation should be made as to whether substantial doubt exists about the entity's ability to continue as a going concern for a reasonable period of time (under U.S. GAAP ~~is~~, 1 year from the date the statements are released or available to be released). If the auditor reaches this conclusion after (1) identifying conditions and events that create such doubt and ~~after~~ (2) evaluating management's plans to reduce their effects, (s)he should consider the possible effects on the statements and the adequacy of disclosure. ~~(S)he~~ The auditor also should include a separate section titled "Substantial Doubt About the Entity's Ability to Continue as a Going Concern" ~~(after the opinion section)~~ in the report. The section should not use conditional language in expressing its conclusion about the existence of a substantial doubt. The substantial doubt is not a basis for a qualified or an adverse opinion, but a disclaimer is not precluded in the case of such a material uncertainty.

Answer (B) is incorrect. The heading of the separate section should include the words "substantial doubt." **Answer (C) is incorrect.** The heading of the separate section should include the words "going concern." **Answer (D) is incorrect.** The report should include a separate section titled *Substantial Doubt About the Entity's Ability to Continue as a Going Concern*.